

November 2008

Paths of Development and Wage Variations*

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Abstract

In analyzing the relationship between factor endowments and sectoral per-capita output (the path of development), Schott (2003) showed empirically that the number of cones was neither one nor three but two, and that all countries fall into one of these two cones. This is a puzzle because it is inconsistent with large wage variations across economies. This paper attempts to solve this puzzle, introducing complete and incomplete specialization into a multiple-cone model. Empirical results reveal that factor endowments can explain Heckscher-Ohlin specialization and the wage variations across economies at the same time once the multiple-cone model allows the complete specialization. (100 words)

Key words: Paths of Development; Complete Specialization; Multiple Cones; Factor Price Equalization; Intra-industry Heterogeneity; Wage Variations; Japan

JEL classification code: F11, F14, F2, C21

*I wish to thank Alan Deardorff, Masahito Kobayashi, and Robert Stern for their comments on earlier versions of this paper. Thanks as well to seminar participants at the University of Michigan, Yokohama National University, and the Fall 2007 Midwest International Economics Meeting. Financial support from the Japan Society for the Promotion of Science (JSPS) 2006 Postdoctoral Fellowships for Research Abroad is gratefully acknowledged. The usual disclaimer applies.

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